

ROUTING

Top Secret 219

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NATIONAL INTELLIGENCE DAILY CABLE

Friday July 15, 1977

CG NIDC 77-163C

**NATIONAL SECURITY INFORMATION**

Unauthorized Disclosure Subject to Criminal Sanctions

State Dept. review completed

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National Intelligence Daily Cable for Friday, July 15, 1977

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The NID Cable is for the purpose of informing senior US officials.

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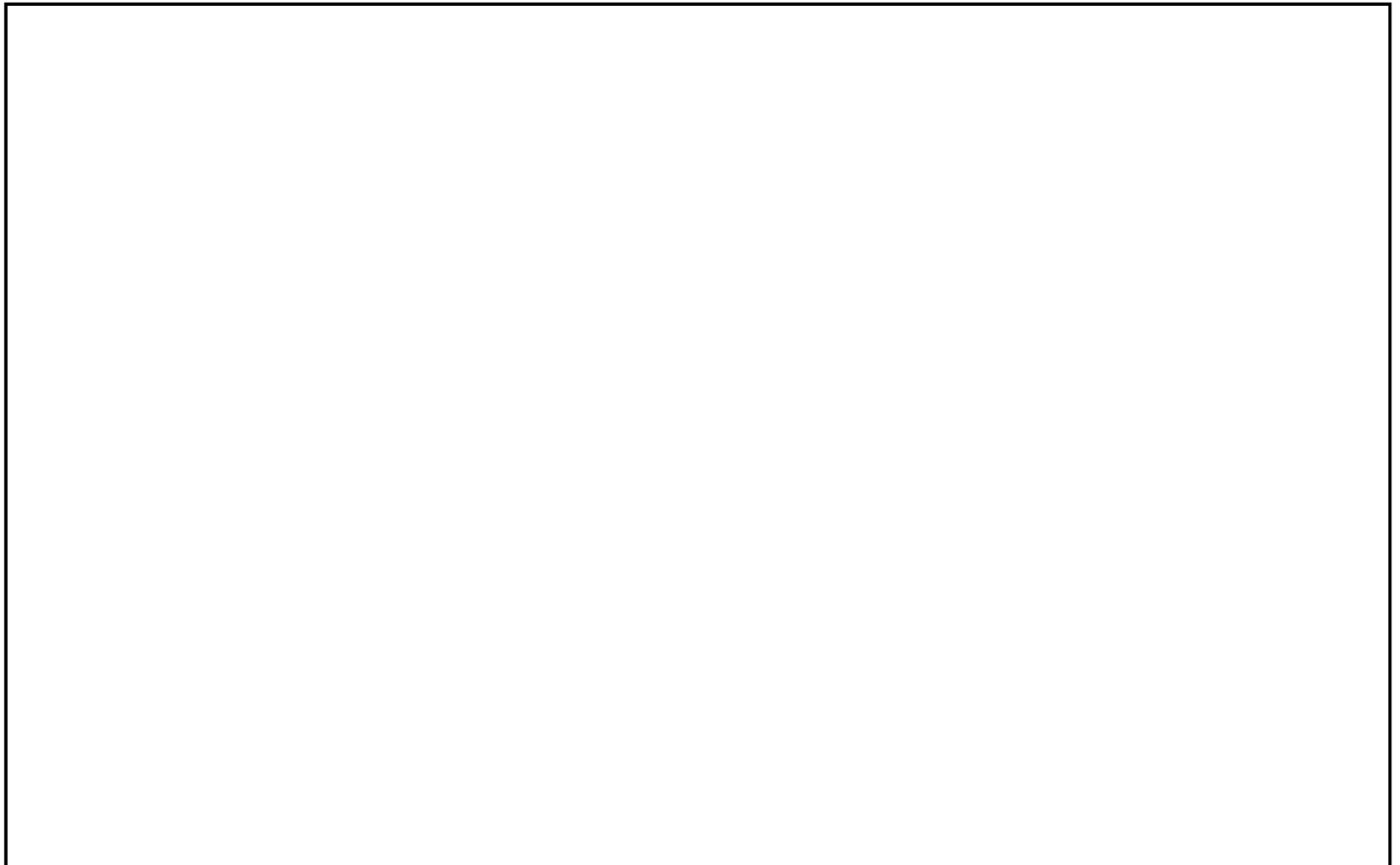
NORTH KOREA: Helicopter Downing

- 25X1 . [] *The North Koreans remain intent on delaying a meeting of the Military Armistice Commission on the downed US helicopter until Saturday morning (10 p.m. tonight EDT.). Pyongyang probably feels that this is the minimum time necessary to assess the situation. There are some tentative signs that the North may take a more moderate position on the question of the captured crew member.*
- 25X1 [] Yesterday North Korean officials at Panmunjom ignored several requests from the US side for an early meeting of the truce commission and stuck by their original counter-proposal for a meeting on Saturday at 11 a.m. The North Koreans asserted that they intend "to make clear the truth about the intrusion of the US army helicopter."
- 25X1 [] The North Koreans may also want more time to evaluate their position on the question of the disposition of the US crew, especially the one surviving crew member. In two similar helicopter incidents in the 1960s, Pyongyang released the crews only after a long detention and after the US made an official apology.
- 25X1 [] Certain aspects of the treatment of yesterday's incident suggest that the North Koreans may be considering a more lenient policy. Within hours after an inquiry, the US embassy in Seoul was informed by the North Korean delegation at Panmunjom that the captured crew member is wounded and is receiving medical treatment.
- 25X1 [] Moreover, in its only public account of the incident so far North Korea has used relatively restrained language. Instead of the usual bombast about taking necessary "self-defense measures" against an intruder, Pyongyang has stated merely that the incident is "under investigation." When this formulation was used in two previous incidents involving Japanese fishing boats, the crews were released relatively quickly.
- 25X1 [] Further details on the crash itself indicate that the crew, obviously disoriented, actually landed the helicopter inside North Korean territory, apparently to check for damage after South Korean outposts had fired warning shots to alert the crew to the danger of approaching the Demilitarized Zone.

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SOUTH AFRICA: Constitutional Changes

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[REDACTED] //The South African government is considering some form of political accommodation for coloreds (people of mixed race) and Asians, but no concessions are planned for urban blacks, according to two senior cabinet officials.//

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[REDACTED] //In separate discussions with Ambassador Bowdler during the past few days, Foreign Minister Botha and Interior Minister Mulder confirmed that a cabinet committee on constitutional change is debating how best to give coloreds and Asians political representation without allowing them to share any power. Nothing is being considered for the urban blacks beyond the limited autonomy in local affairs already provided.//

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[] //Mulder, a key member of the cabinet committee and a leader of the conservatives in the ruling National Party, has said that blacks must continue to find their political fulfillment in the homelands, the 13 percent of South Africa's area allotted to them. Mulder has hinted that there might be some consolidation of the homelands, many of which are fragmented bits of land scattered throughout white South Africa. Only miniscule parcels of white-owned land are likely to be included in any such consolidation, however.//

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[] //The major proposal under consideration is the creation of separate legislatures for the coloreds and the Asians that would be at least superficially comparable to the existing all-white parliament. Representatives from the three legislatures would meet in a joint consultative body. The role of this joint body is now the center of controversy among the drafters of the plan, according to Botha.//

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[] //If the colored and Asian parliaments are allowed to veto decisions of the joint group, they could block government actions approved by the white parliament. This would amount to real decision sharing, a prospect unacceptable to most conservatives. Without provisions for a veto, such a plan would appear to be designed simply to give the illusion of sharing while retaining all power in white hands.//

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[] //The committee's findings will be debated in the cabinet early next month and discussed at the National Party provincial congresses in August and September. Prime Minister Vorster has long used these annual congresses as sounding boards to test rank and file reactions to policy pronouncements before presenting them to parliament.//

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[] //A far more drastic change in the racial policy was suggested last week by Foreign Minister Botha and Minister of Agriculture Schoeman, who urged repeal of South Africa's laws barring interracial sexual relations and marriage--basic planks in the National Party's policy of racial separation. Both men obviously spoke without official sanction, and Schoeman, apparently under pressure from the party leaders, has backed down and issued a statement supporting the two laws. Botha has made no public retraction, but he told the US ambassador that he is under intense pressure from the cabinet to do so. []

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PAKISTAN: Situation Report

[redacted] Pakistan remains calm, and the bulk of the population seems relieved that the military now controls the government. The martial law administration that seized power on July 5 still regards itself as temporary and has begun to prepare for elections and the transfer of power to civilians in early October.

[redacted] Because of concern that the election campaign could be violent, the military plans to limit it to no more than thirty days, and possibly less. The administration is trying to collect weapons from former Prime Minister Bhutto's followers and from the opposition, and is urging the press to avoid inflammatory articles.

[redacted] The most prominent politicians remain in custody, although they are allowed limited contact with their followers. The government plans to hold them until they have agreed to a code of ethics now being drafted. The politicians will probably be released before October, if only to avoid creating speculation that the military may renege on its promise to hold the elections. [redacted]

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SAUDI ARABIA - TAIWAN: Relations

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[REDACTED] //Nationalist Chinese President Yen Chia-kan on Tuesday ended a three-day visit to Saudi Arabia. The joint communique issued at the conclusion of his visit reaffirmed the two countries' close political, economic, and technical relations. Taiwan's interest in purchasing Israel's Kfir jet fighter, however, poses a potentially serious problem for relations.//

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[REDACTED] President Yen's visit--the first by a Nationalist president to any country since the government withdrew to Taiwan from China 28 years ago--underlined his country's long-standing close economic and political ties with Saudi Arabia and the mutually strong antipathy toward communism.

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[REDACTED] Saudi King Faysal visited Taipei in 1970 and developed a personal friendship with then president Chiang Kai-shek. Relations between the two countries have grown steadily since.

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[REDACTED] The relationship has been mutually beneficial. Saudi Arabia has strongly supported Taiwan's continued membership in international organizations and, in addition to financial and political support, provides Taipei with nearly half of its oil imports.

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SPAIN: Economic Program

[] The Spanish government this week announced the initial measures in its economic program, highlighted by a 20-percent drop in the value of the peseta vis-a-vis the US dollar. Though necessary to restore competitiveness in foreign markets, the devaluation will pose some problems for Suarez in the short run. Because many of the measures will have to be approved by Parliament, Suarez will continue to seek the support of the Socialists for the program. The government's ability to control wage increases will be a key to the program's success.

[] The economic program aims to reduce the balance-of-payments deficit and inflation without increasing unemployment, and bears the imprint of Fuentes Quintana as the new "super" minister in charge of economic policy. Additional measures are likely to be announced within a few weeks, when Suarez and Fuentes are expected to finish drafting a two-year program designed to set the Spanish economy on the road to recovery.

[] Suarez consulted with Socialist Party leader Felipe Gonzalez before announcing the devaluation and will continue to seek the support of the Socialists for the economic program. Suarez has facilitated his dialogue with the left through the appointments of Fuentes and of Fernandez Ordonez as Finance Minister. Fuentes is a highly respected and influential economist who is relatively apolitical and thus capable of eliciting support from a broad political spectrum. He has been given a mandate by Suarez to direct the overall economic program.

[] Fernandez Ordonez, a lawyer, economist, and past president of the Spanish state holding company, National Institute of Industry, is the leader of the Social Democratic

faction of Suarez' party. He has a good relationship with the Socialist Party. As finance minister, he will take the lead on tax reform.

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[] The devaluation of the peseta--a move designed to reduce the trade deficit--had been expected for some time. Spain reportedly spent \$1 billion over the last six weeks to defend the peseta. With domestic prices rising at an estimated 30-percent annual rate since January, Spain's competitive position has continued to deteriorate. The current-account deficit is running at about the level of last year, when it reached \$4.2 billion.

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[] Though necessary to restore competitiveness, in the short run devaluation will pose some problems for Suarez. Import prices will rise immediately, worsening both inflation and the trade deficit. Over the next two months, only an expected boost in tourism will have a positive impact on the current-account balance. Exports of Spanish manufactures will not improve significantly right away.

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[] Direct measures to deal with prices and wages have not been announced. While Madrid intends to hold the growth of the money supply below a 21-percent annual rate, Spain will still face a devaluation-inflation spiral as did Italy and the UK.

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[] Suarez favors a formal social pact with specific limits on wage increases, but the Socialists, who are vying with the Communists for workers' support in the trade unions, have rejected this notion.

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[] An informal agreement between Suarez and the left to slow wage increases, however, might be worked out in return for instituting measures favorable to labor. Proposals include: a more progressive income tax, increased unemployment compensation, a public works program, tax incentives for businesses that create new jobs, and transfer of some of the social security burden from business to the federal treasury.

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[] The funds necessary to sponsor these programs are to be acquired through temporary increases in taxation on higher incomes and by reducing widespread tax fraud. []

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UK: Wage Restraint Agreement

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[] //Failure of last minute talks between Labor government and Trades Union Congress leaders to achieve a firm agreement on a third year of voluntary wage restraint will lead to a special parliamentary debate on the minority Labor government's economic policy next Wednesday, perhaps to be followed by a vote of confidence. Chancellor of the Exchequer Healey will make a statement today in the House of Commons spelling out the government's position on pay and the related issues of price increases and tax cuts, which could form the basis of a confidence vote. Should next week's debate end up with a call for a confidence vote, our initial assessment is that the opposition Conservatives will be unable to unite all the minor party members of parliament with them in expressing no confidence in the Labor government, thus precipitating an early election.//

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[] //The bellwether transport workers' recent decision to return immediately to unfettered collective bargaining when Phase Two expires at the end of this month signaled the end of the central feature of "the social contract" between the Labor government and the Trades Union Congress.//

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[] //During talks earlier this week, Trades Union Congress leaders reportedly told the government they were still committed to the current rule that there must be a 12-month gap between pay settlements. Such a rule, if adhered to, would prevent most major unions from making new wage contracts until next winter or spring. The ability of the Trades Union Congress to hold the line on the 12-month rule, however, is suspect given the positions already staked out by the more militant unions.//

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[] //Sharp differences within the government over a rigid or flexible pay policy exist, and a cabinet meeting was held last night, presumably to hammer out a compromise. Either approach carries a risk. A rigid line would probably provoke a confrontation with the trade unions, where grass roots sentiment for an end to pay controls is widespread. On the other hand, a loose set of wage guidelines risks a flood of "special" pay demands by unions trying to make up for two years of restraint.//

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[REDACTED] //The government's difficulties over pay policy have decreased its chances of lasting out the year, but its prospects for success in a confidence vote next week are brighter. Our initial judgment of the parliamentary situation is that Labor would be able to win a confidence vote on the basis of abstentions of minor party MPs.//

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[REDACTED] //Although the failure to secure another round of wage restraint has increased tension between the government and their Liberal Party allies, the Liberals desire to avoid an early election should induce them to give the government's new policy a chance to prove itself. If, over the next few months, new pay contracts are excessive, there will be ample opportunity for the Liberals to abandon their pact with the government.//

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[REDACTED]

[REDACTED]

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CANADA - WEST GERMANY: Euratom

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[] //Canadian Foreign Minister Jamieson told Parliament Wednesday that the government has yet to decide whether it will conclude an interim agreement to resume uranium shipments to Euratom.//

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[] //Jamieson said that he would not go as far as West German Chancellor Schmidt, who on Tuesday said that an interim agreement "seems fairly easy to achieve." The communique issued after Schmidt's talks with Prime Minister Trudeau said that Canada "would be prepared to consider" interim arrangements to resume shipments of uranium to Euratom while the International Nuclear Fuel Cycle Evaluation Program is carried out over the next two years.//

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[] //In speaking to Parliament, Jamieson said that several conditions would have to be negotiated before Canada accepts an agreement, and that talks could last two or three months. Jamieson specifically cited the need to ban transshipments of uranium from West Germany to France, which has not signed the Non-Proliferation Treaty. He noted, however, that there are indications that France would be willing to accept Canada's conditions. []

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